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ABSTRACT

Major factors causing tuition and other charges to rise faster than inflation are analyzed. Attention is directed to the effect of inflation on faculty salaries, federal need-based aid to private colleges, expenditures for capital equipment by state colleges, and state appropriations to higher education. Data are provided on average undergraduate student charges for tuition and fees and for room, board, and other expenses at public and independent colleges for 1977-1986. Projections for 1986-1989 are included. Data are included on annual percentage changes in student charges, faculty salaries, the Consumer Price Index (CPI), and unemployment. Actual and projected rates of growth in undergraduate student charges, faculty salaries, the CPI, and the Higher Education Price Index are also provided for public and independent institutions during 1977-1989. Annual rates of increase in student charges peaked in 1981-1982; however, the decreased rate of growth in the CPI since 1979-1980 has been for more dramatic, with an increasing disadvantage for student costs. Between 1986 and 1988, total charges should grow at combined rates averaging 5 to 6 percent, with an estimated general inflation rate of 4.5%. It is suggested that the single key to slower growth in student charges is sustained low inflation rates. Two sources of information on average undergraduate student charges are identified: the National Center for Education Statistics, and the College Scholarship Service. (SW)

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FORECASTING COLLEGE COSTS THROUGH 1988–89

Cathy Henderson*

Since the early 1980s college administrators have blamed the rapid rise in tuition and fee rates on external economic forces. Double-digit inflation during 1979–81 and high unemployment rates during 1981–83 (which depleted state revenues) forced institutions to escalate the rise in student tuition and fees. By 1982–83 tuition and fee rates were increasing at almost triple the rate of inflation, and total student costs (including living expenses) were growing at more than twice the annual inflation level (see Table 1).

Now, times look better, at least on the surface. The Congressional Budget Office (CBO) projects inflation (as measured by the Consumer Price Index) to remain low (3.7–4.5 percent) through 1988–89. Likewise, unemployment is expected to average 6.5–7.5 percent.[1] State appropriations for higher education are up again in most states and overall enrollment levels are stable. Can student consumers, taxpayers, and policymakers now expect college costs to slow down in the rate of growth? Probably so, but it is highly unlikely that college costs will grow slower than, or even at the same rate as inflation for the remainder of this decade. This prediction is in direct contrast to the latter half of the 1970s when inflation rates outdistanced college costs.

There are several factors which are shaping these trends in college costs. Some pressures affect all campuses and others primarily influence public or independent institutions. The following analysis of these trends includes projections to 1988–89 and updates a 1983 policy brief, *College Costs: Recent Trends, Likely Future* (published by the American Council on Education).

Consumer Cost Information

Who monitors student charges? Two sources of information annually publish estimates of average undergraduate student charges. First, the National Center for Education Statistics (NCES) collects data each year on tuition and fee rates as well as room and board charges for resident students. Data are provided by all higher education institutions and by a growing number of proprietary schools. Average figures are derived by weighting the student charge data by enrollment size. NCES then tabulates the *average charges for students* at public and independent two- and four-year institutions. Figures in this report will vary slightly from published NCES figures because proprietary schools have been excluded from these tabulations for the independent sector.

The second primary source of information is the College Scholarship Service (CSS) of the College Board. In addition to obtaining data on tuition, fees, room and board, the CSS annually collects information on expected expenses for books, transportation, and personal items. In contrast to the NCES survey, CSS simply averages the institutional cost data and does not weight the data by enrollment size. Type and control averages for *groups of institutions* are, therefore, provided by CSS. CSS averages are based on institutional reports from two consecutive years; for example, although more than 3,500 institutions responded to the CSS 1985–86 survey, published averages were based on only the 1,820 institutions that also had supplied 1984–85 data. Overall, the NCES series is more useful as an indicator of average resident student charges for tuition, fees, and partial living expenses. The CSS series does provide helpful estimates of additional non-instructional expenses (transportation, books, supplies, and personal items).

Typical College Charges for Consumers

Many people thinking about the costs of attending college consider only tuition and fee charges. However, for most full-time students, living expenses such as room, board, transpor-

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tation, and personal expenses must be added to the expected payments for tuition, fees, and books. Student budgets for full- or part-time commuter students more often are limited to tuition, fees, books, and partial transportation costs, on the assumption that their place of residence remains unchanged. Based on data from NCES and CSS, comprehensive budgets for full-time undergraduate students enrolled for the 1985–86 academic year are estimated by the American Council on Education to be $5,294 at public institutions and $10,476 at independent institutions (see Table 2).

Overview of Trends

Table 3 compares cumulative growth among average student charges, faculty salaries, the Higher Education Price Index (HEPI)[2], and the Consumer Price Index (CPI). From 1977 through 1983 total student expenses (up 64 percent) rose at about the same rate as the CPI (up 62 percent) and the HEPI (up 61 percent). Since 1983 tuition and fees as well as non-instructional costs have risen faster than the CPI. When a longer period (1977 through 1985) is examined, total costs rose 88 percent while inflation only ran 76 percent; comparable HEPI data are not available. What are the pressures, both internal and external, which drove these college costs up?

Faculty Salaries Lag

Higher education by its very nature is a labor-intensive industry. Faculty and staff compensation constitutes a major component of institutional operating budgets. Compensation can require 60 percent or more of current expenditures.[3] Many of today's faculty members are both older and tenured. Therefore, their average salaries are at the mid- to upper-end of their ranges.

Faculty salary increases were hard hit by the years of double-digit inflation when scarce revenues were used to pay runaway utility bills. Even after recent years when tuition and fee rates have clearly outpaced the CPI, faculty salary increases have been modest. For example, in 1982–83 faculty salaries rose by 6.4 percent, considerably higher than the CPI at 4.3 percent but only half the tuition and fee rate of 12.7 percent. Between 1977–78 and 1984–85, inflation rose 70 percent while faculty salaries trailed behind at 60 percent. Compensatory increases for faculty and staff salaries are still in order. This issue cuts across public and independent institutions as well as universities, four- and two-year colleges.

Institutional Aid Grows

1981–82 was a pivotal year for institutional budgets. Inflation had started to decelerate, faculty salaries were beginning to make compensatory gains, and bills from deferred facility maintenance and renovation were increasing.[4] In this same year the purchasing power of need-based federal student aid awards began to erode. By 1983–84 average federal aid had dropped by almost 16 percent (in current dollars).[5] Independent institutions responded by recycling some of their general tuition revenue into institutionally-funded aid programs. During these same two-years, 1981–82 through 1983–84, independent institutional need-based aid rose 59 percent and by 1983–84 totaled $987 million.[6] Independent institutions were trying to offset the losses in federal aid awards and to provide more educational choice to low- and middle-income students who could not have otherwise afforded to enroll in the independent sector. The recycling of tuition revenue into institutional aid programs has occurred throughout the independent sector including small liberal arts colleges as well as comprehensive and research universities.

Push to Improve Technology and Promote Quality

Another drain on tuition-generated revenue has been expenditures for capital equipment. These outlays have been for both scientific equipment in laboratories and computer systems to improve educational instruction and institutional administration. Capital investments have not just been limited to research institutions either. Obviously research universities need to provide sophisticated technology to train engineers for careers in industry; but liberal arts colleges too have faced enormous expenditures to improve information technology, especially in the area of library services. Independent institutions have struggled to adequately fund both institutional aid and to repair or to replace high tech equipment to maintain their quality of instruction.

Within the public sector, many state legislators are pressuring institutions to "improve quality". One external measure of quality instruction is the availability of competitive technology on campus. However, legislative pressures go beyond the simple purchase of capital equipment. There are widespread efforts underway to link more closely local institutions and industrial growth together to diversify the economic outlook for the state. If public institutions produce well-qualified college graduates who are trained on sophisticated equipment, high tech industries are more likely to relocate in these states.

Pricing policies in the public sector have always been based on the assumption of shared personal and societal benefits. Therefore, no student pays the total cost of education. However, in conjunction with this recent commitment to improve academic quality, state legislators appear willing to permit tuition and fees to rise accordingly. The rationale has been to pass along additional educational costs to selected consumers (students and their families) rather than increase state taxes.

State legislators can afford to endorse campaigns to improve academic quality because such efforts typically draw high approval ratings from state residents. Overall state appropriations for higher education are up. States will spend $31 billion in 1985–86; this is a gain of 19 percent over the past two years.[7] The gain, though, has not been uniform across all states. Industrial states such as Ohio (+23 percent), Michigan (+26 percent), and New Jersey (+27 percent) have fared better than Texas (−3 percent) which has been hard hit by lower oil prices, or Iowa (+7 percent) where farm foreclosures continue and unemployment is rising.[8]

Looking Ahead

Trends which are pressuring institutions to continue to raise their tuition at rates above inflation include the following:

- Faculty salaries need to increase at least one percent above inflation for several years if the profession is to recover income lost since the 1970s.
- Erosion in the purchasing power of federal student aid awards is forcing the independent sector to recycle some funds back to students (in the form of need-based institutional aid) to insure that low- and middle-income students are not frozen out of educational choice.
- Efforts to improve educational quality, often initiated by state legislatures, have been coupled with higher educational costs for scientific equipment and information technology; students and their families are being asked to bear a larger share of these costs in lieu of general tax increases.

At the same time that these strategic decisions are being made by campus and legislative policymakers, external economic forces are helping to slow down the rate of growth in student charges. If inflation and unemployment remain low (as predicted), then average annual increases in total student charges (tuition, fees, room, board, and other non-instructional expenses) should continue to drop (see Chart A). Annual increases in total charges reached a peak in 1981–82 at over 11 percent. Between now and 1988–89, total charges should grow at combined rates averaging 5–6 percent. Although this would mean that student charges would outpace inflation (estimated at 4.5 percent), it is a considerable improvement over the past four years when total student charges grew at annual rates of 7–10 percent.

The single key to slower growth in student charges is sustained low inflation rates; the return of high unemployment levels or dramatic cuts in need-based federal student aid programs could also upset the fragile balance between efforts to keep charges as low as possible and pressures forcing them to rise.

Notes

1. Congressional Budget Office, *The Economic and Budget Outlook: An Update, A Report to the Senate and House Committees on the Budget* (Washington: Government Printing Office, 1985), p. xiv.
2. The Higher Education Price Index is a useful measure of the changes in the prices of a fixed "market basket" of goods and services used by higher education institutions. Included in the HEPI components are professional and non-professional wages and salaries, fringe benefits, contracted services, supplies and materials, institutional equipment, books and periodicals, and utilities.
3. Carol Frances, "Why Tuition Keeps Going Up", *AGB Reports* (Washington: Association of Governing Boards of Universities and Colleges, 1985), p. 27. See also Carol Frances, "Major Trends Shaping the Outlook for Higher Education," *AAHE Bulletin* (Washington: American Association for Higher Education, December 1985).
4. National Institute of Independent Colleges and Universities, *Research on the Tuition Gap and Enrollment by Family Income* (Washington: National Institute of Independent Colleges and Universities, 1985).
5. Ibid., p. 3.
6. Julianne [illegible] Thrift and Christopher M. Toppe, *Paying for College, Trends in Student Financial Aid at Independent Colleges and Universities* (Washington: National Institute of Independent Colleges and Universities, 1985), p. 15.
7. Jean Evangelauf, "States Spending on colleges Rises 19 Pct. in 2 Years, Nears $31-Billion for '85–86," *The Chronicle of Higher Education*, October 30, 1985, pp. 1, 13.
8. Ibid., p. 13.

TABLE 1: Annual Percentage Changes

Year	Total Student Charges	Tuition and Fees	Room, Board and Other Expenses	Faculty Salaries	Consumer Price Index[1]	Unemployment
1978–79	5.4%	8.0%	4.3%	6.0%	9.3%	6.1%
1979–80	7.6%	8.0%	7.5%	7.1%	13.3%	5.8%
1980–81	10.2%	10.7%	10.0%	8.7%	11.6%	7.1%
1981–82	11.5%	12.9%	10.8%	9.0%	8.7%	7.6%
1982–83	9.9%	12.7%	8.8%	6.4%	4.3%	9.7%
1983–84	7.3%	10.1%	6.0%	4.7%	3.7%	9.6%
1984–85	7.1%[2]	8.6%[2]	6.4%[2]	6.6%	4.3%[2]	7.5%
1985–86	6.9%[2]	8.0%[2]	6.4%[2]	NA	3.7%[2]	7.2%[2]
			Projections			
1986–87	5.6%	7.0%	5.0%	NA	4.5%	7.0%
1987–88	5.5%	6.6%	5.0%	NA	4.4%	6.8%
1988–89	5.5%	6.6%	5.0%	NA	4.2%	6.6%

[1]Adjusted for fiscal years

[2]Estimated

Sources: American Council on Education, based on data from the National Center for Education Statistics and the College Scholarship Service of the College Board; American Association of University Professors data supplied to *The Chronicle of Higher Education*, 1985; the Bureau of Labor Statistics, annual releases; and the Congressional Budget Office, *The Economic and Budget Outlook: An Update*, 1985.

TABLE 2: Trends in Average Undergraduate Student Charges, 1977–78—1988–89

Year	Total Costs[1]			Tuition and Fees			Room, Board, Other		
	Total	Public	Indep.[2]	Total	Public	Indep.[2]	Total	Public	Indep.[2]
1977–78	$3,425	$2,927	$ 5,174	$ 975	$ 515	$2,604	$2,450	$2,412	$2,570
1978–79	3,609	3,057	5,548	1,053	548	2,843	2,556	2,509	2,705
1979–80	3,884	3,285	5,988	1,137	586	3,089	2,747	2,699	2,899
1980–81	4,282	3,603	6,665	1,259	636	3,466	3,023	2,967	3,199
1981–82	4,773	4,000	7,487	1,422	713	3,935	3,351	3,287	3,552
1982–83	5,248	4,371	8,329	1,602	805	4,428	3,646	3,566	3,901
1983–84	5,629	4,666	9,011	1,764	895	4,847	3,865	3,771	4,164
1984–85[3]	6,028	4,971	9,739	1,916	967	5,283	4,112	4,004	4,456
1985–86[3]	6,443	5,294	10,476	2,069	1,044	5,706	4,374	4,250	4,770
				ACE Projections[4]					
1986–87	6,807	5,579	11,113	2,214	1,117	6,105	4,593	4,462	5,008
1987–88	7,183	5,870	11,791	2,360	1,184	6,533	4,823	4,686	5,258
1988–89	7,581	6,175	12,511	2,517	1,255	6,990	5,064	4,920	5,521

1. Total costs combine: (1) tuition, fee, room and board charges from the National Center for Education Statistics; and (2) expenses for transportation, books, supplies, and personal items from the College Scholarship Services series. In some years, NCES has revised previously published data.

2. Excludes proprietary institutions.

3. Estimated.

4. ACE projections, using the following inflators:

Year	Tuition and Fees		Room, Board, and Other Expenses
	Public	Independent	
1986–87	7%	7%	5%
1987–88	6%	7%	5%
1988–89	6%	7%	5%

These inflators were developed after reviewing data from the National Center for Education Statistics, The College Scholarship Service, the Congressional Budget Office, the Southern Regional Education Board, New England Board of Higher Education, Western Interstate Commission for Higher Education, National Institute of Independent Colleges and Universities, National Association of State Universities and Land-Grant Colleges, American Association of State Colleges and Universities, American Association of Community and Junior Colleges, Consortium on the Financing of Higher Education, Great Lakes College Association, Associated Colleges of the Midwest, and the Economic Forecasting Project at Georgia State University. Inflators from the above sources ranged between 3 and 8 percent.

Source: American Council on Education, 1985.

TABLE 3: Recent Rates of Growth in Undergraduate Student Charges and Related Indices
(1977–78 as Base Year)

Year	Total Costs[1]			Tuition and Fees[2]			Room, Board, and Other Expenses			Faculty Salaries	HEPI[3]	CPI[4]
	Total	Public	Indep.[2]	Total	Public	Indep.[2]	Total	Public	Indep.[2]			
1977–78	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1978–79	105.4	104.4	107.2	108.0	106.4	109.2	104.3	104.0	105.2	106.0	107.7	109.3
1979–80	113.4	112.2	115.7	116.6	113.8	118.6	112.1	111.9	112.8	113.5	118.4	123.8
1980–81	125.0	123.1	128.8	129.1	123.5	133.1	123.4	123.0	124.5	123.4	131.0	138.2
1981–82	139.4	136.7	144.7	145.8	138.4	151.1	136.8	136.3	138.2	134.5	144.1	150.2
1982–83	153.2	149.3	161.0	164.3	156.3	170.0	148.8	147.8	151.8	143.1	153.2	156.7
1983–84	164.3	159.4	174.2	180.9	173.8	186.1	157.8	156.3	162.0	149.8	161.5	162.5
1984–85	176.0	169.8	188.2	196.5	187.8	202.9	167.8	166.0	173.4	159.7	NA	169.5[5]
1985–86	188.1	180.9	202.5	212.2	202.7	219.1	178.5	176.2	185.6	NA	NA	175.7[5]
				Projections[6]								
1986–87	198.7	190.6	214.8	227.1	216.9	234.4	187.5	185.0	194.9	NA	NA	183.6
1987–88	209.7	200.5	227.9	242.0	229.9	250.9	196.9	194.3	204.6	NA	NA	191.7
1988–89	221.3	211.0	241.8	258.1	243.7	268.4	206.7	204.0	214.8	NA	NA	199.8

1. See footnote 1 in Table 2.
2. Excludes proprietary institutions
3. Higher Education Price Index, adjusted for fiscal years, from Research Associates of Washington, "Higher Education Prices and Price Indexes: 1984 Update", 1985.
4. Consumer Price Index, adjusted for fiscal years
5. Estimated
6. See footnote 4 in Table 2.

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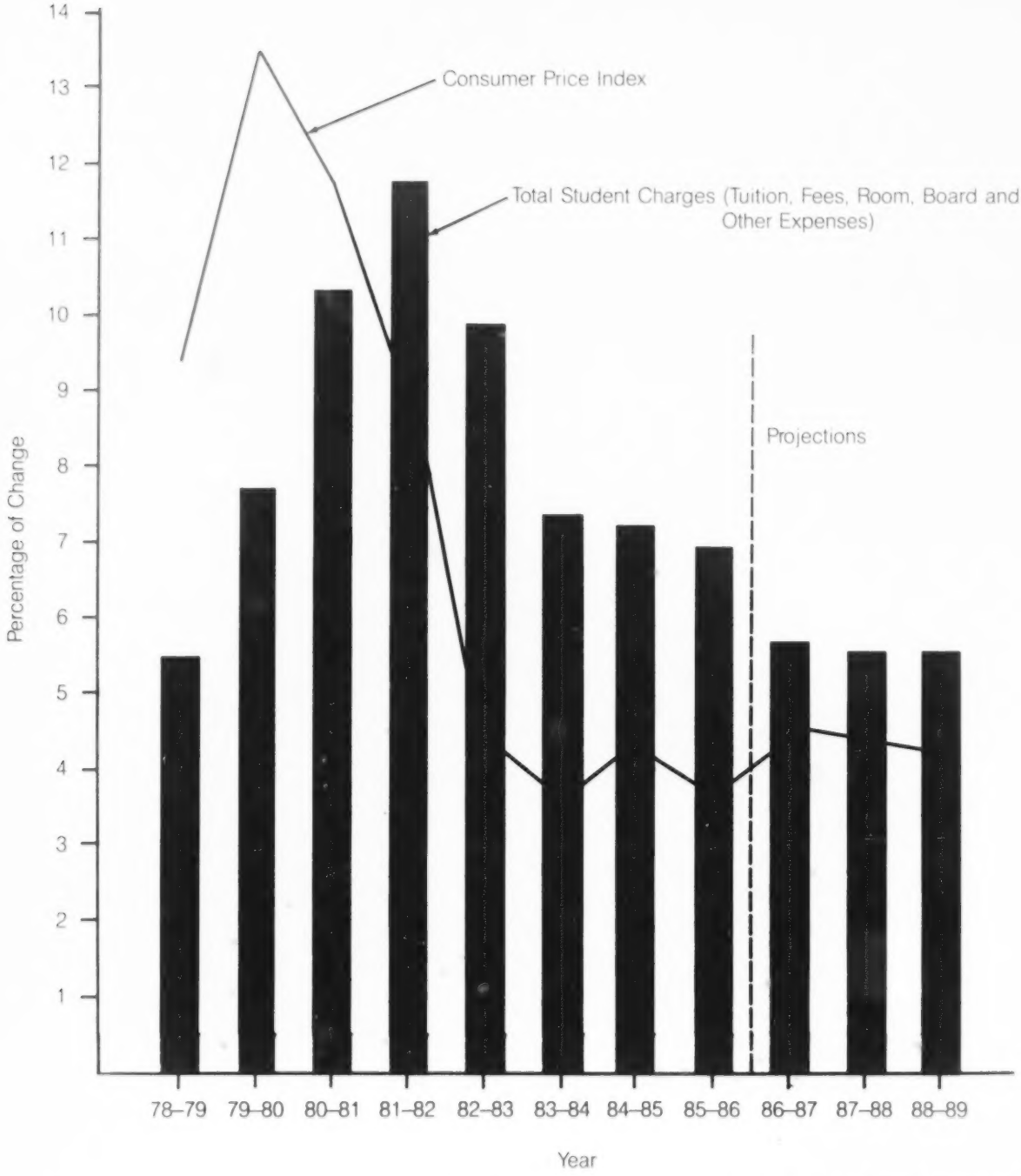
CHART A
ANNUAL PERCENTAGE CHANGES IN STUDENT CHARGES AND INFLATION



Source: American Council on Education, based on data from the National Center for Education Statistics and the College Scholarship Service of the College Board; Bureau of Labor Statistics, annual releases; Congressional Budget Office projections, 1985. Also See Table 1.